

# Accounting profession in united kingdom

Profession



The press has a tendency to emphasize the role of the accounting profession in the UK in some of the more flagrant and unethical business practices. Some may argue that the ethical standards in our society are relatively low, which should explain the role accountants have played in some business scandals. In addition, the profession's commitment to the general public and to the protection of the public interest is not exactly part of the accountant's environment.

D. F. Linowes argues the same point as follows: What is needed is an environment which establishes an attitude on the part of the practitioner so that he personally practices his profession using his best technical judgment, supported by the counsel and guidance of his peers, and constantly striving toward his appropriate role in society. Unfortunately, there are few guidelines in the accounting profession in the UK concerning which clients accountants are to serve or what services they are expected to render.

In some cases, the British government or the courts intervene to pinpoint the kinds of services expected. Due to this lack of identification of their role, accountants wind up serving various masters. One consequence has been the frequent use of footnotes to avoid making hard and fast professional judgments.

Accounting data -- seen as an integral part of financial, and therefore, social control -- can be interpreted from different perspectives. The existence of different views naturally results in conflicting sentiments. Inasmuch as different views can be associated with different political and philosophical positions, they are also reflected in arguments pertaining to the split in accounting profession in the U. K. (WCED 69)

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If it could be rationalized, from logical argument and empirical investigation that accountants generally act in the interest of public welfare, then the classical framework, which implicitly defines accounting as a neutral institution concerned only with the objective measurement of economic performance, would be valid. To the extent the accounting profession in the U. K. does not always act in the best interests of the public, the classical framework is less valid and a new framework is needed to resolve new accounting issues.

To the extent that the institution of accounting becomes concerned with its own survival and prestige, any criticism of the accounting profession in the U. K. or the accounting institution would be viewed as an undesirable, dysfunctional, and potentially harmful attempt to undermine the authoritative position of the discipline. (Green Gauge 51) The schism, therefore, would be interpreted as an unfortunate misunderstanding between practitioners and academics, rather than a legitimate and constructive difference in philosophy.

Our position is that the schism provides beneficial competition internally, thereby supporting processes of change. These processes have not only introduced new ideas and concepts, but have influenced the institution of accounting itself.

Conventional wisdom assumes that new accounting requirements and new interpretations of traditional problems and principles merely reflect changes in the economic environment. However, this conventional approach neglects the significant impact of changes in philosophical and political positions. (Desai, M. 4-5)

Changes in the environment have caused changes in philosophical and political views of varying membership groups in the accounting profession in the U. K., their various responses resulting in discussion and compromise among the groups, so that the profession as a whole can respond in a rational and informed manner. (Anderson, V. 23-24)

As the era of more clearly defined issues, cause-effect chains, and well-structured problem statements has vanished, new complex problems arise. Accordingly, diverse views and compromises afforded by the schism are recognized as a valid and successful solution methodology. A political approach recognizes that arguments and applications addressed by the schism have been changing within a changing environment thus affecting the interpretation of the schism itself.

Two frameworks, classical and new, are contrasted to illustrate different approaches to political and philosophical positions. The two frameworks delimit the opposing views that comprise the division between practitioners and academics with regard to education, standard setting, and the function. (Cairncross, A. 113)

Within the classical framework, government is defined external to human systems. Using authoritative power, the role of government is to guarantee a competitive socioeconomic structure in which the natural forces of competition can work freely and without impediment. The flawless, structured, and internally valid logic of the classical ideal has advanced the view that only in a free market system is it possible to achieve optimal economic growth, optimal economic efficiency, and optimal allocation of scarce economic resources. (Atkinson, G. 21)

Based on arguments introduced by Adam Smith in 1776, natural equilibrium states in economic systems are reached through a competitive price mechanism as if guided by an "invisible hand." Similar arguments have been used to demonstrate that only free and democratic systems will guarantee individual freedom, justice, and fairness.

One view on the role of accounting is based on the classical framework. By adopting the classical framework of free markets along with perfect and competitive equilibrium in socioeconomic systems, there is an assumed natural role for all types of institutions. For example, the discipline is associated with the task of generating and disseminating financial information. As such, accounting data is seen as an important source of information required for rational decision making by individual users. Only well-informed individuals can attain rational optimization. (Allen, T., Thomas, A. 2-3)

Thus, by associating accounting data with classical economic theories and rational optimization models, accountants deduce that relevant accounting information is needed to make optimal decisions. By associating accounting data with the pricing of financial securities in financial markets, the market force is anonymous and represented by average or marginal investors who determine security prices. (Environment Challenge 6) This market-oriented approach, based on financial theory, requires relevant and timely accounting information in order for the entire free market system to function efficiently. In this respect, the discipline holds an important socioeconomic responsibility.

“ The Top 50 accountancy firms in the UK saw double digit growth this year, exceeding their post-Enron peak thanks in part to the regulatory reforms <https://assignbuster.com/accounting-profession-in-united-kingdom/>

triggered by Enron's collapse. Combined fee income in 2006 reached £7.62bn, an emphatic 13.1% rise on last year's total revenues of £6.72bn. The Big Four took the lion's share of revenues with £5.5bn, a jump of £700m on last year's income. Accountancy Age's Top 50 is the most respected league table ranking the UK's top accountancy firms, compiled in June each year”.

Another view is based on the new framework. Accountants function in a chaotic environment and are motivated by self-interest. In building an authoritative British organization responsible for establishing generally accepted accounting principles and for requiring the use of specific accounting techniques, the institution may be perceived as placing its members' interest above the public interest. (BEA 25-26) Other interpretations consider data as a means of enforcing financial standards through regulatory procedures or as a method for establishing performance standards. (UN: United Nations 103)

By emphasizing either framework, it is possible to define different social roles for data. For example, the role under the classical framework is to foster efficiency in a restrictive environment, while under the new framework it is to foster efficiency in a complex dynamic environment.

In the classical framework, education has a particular natural role. For example, education should introduce students to the requirements of responsible and rational citizenship by providing a wide range of courses, so that individuals can develop their own skills for becoming competitive and successful. By viewing education as a public good, everybody should have free access; by using free market principles, education -- as a scarce

economic resource -- should be allocated through free-pricing mechanisms such as vouchers. (Atkinson, G., Pearce, D. 11)

With the recognition that education is a unique economic good, traditional price mechanisms have been replaced with authoritative allocation schemes. Public education is mandated at elementary levels, and is essentially free. But in professional accounting education, the degree has become a means to discriminate and construct barriers to free market mechanisms controlling entrance to the profession. For example, the 150-hour requirement can be seen as a method to restrict access to the accounting profession in the U. K.

The unique role of education in the control of human systems has further contributed to the spilt in accounting profession in the U. K. If education were left to free market forces, it would deliver those subjects whom British society demands with the goal of teaching useful ideas and skills. The supply-side approach to teaching enables teaching institutions to determine their own policies and what they determine as beneficial for students.

On the other hand, a demand-side approach enables students and potential employers to determine course content, curriculum structure, admission policies, research topics, and instructor evaluation schemes. Some educators believe that in the long run equilibrium will be reached between opposing views in education if the natural forces of competition prevail, so that the best approach will be adopted.

It is elementary to recognize that education could be used as a political tool to maintain a particular social structure, to perpetuate a specific view of the world, and to enforce a specific notion of social and economic justice. In such

a regime, education may become associated with such terms as indoctrination, socialization, and discrimination. Within the free market ideal, the profit motive, pricing mechanisms, and competition determine educational programs, procedures, and policies.

But if government, the educational establishment, and other authoritative institutions use education as a means to further their own objectives, it is difficult to see how education can be made responsive to the unique and different needs of a changing British society. An ongoing dispute in accounting education concerns the question of the extent to which education should respond to environmental changes or maintain the status quo.

While the persuasive logic of classical framework has remained, the socioeconomic conditions have drastically changed. Compared to conditions just half a century ago, a range of new deviations from the classical ideal exists. In particular, the rate of change has increased significantly so that the response time to environmental changes is longer than the rate of change itself. As a consequence, management procedures have become increasingly proactive and anticipatory with the goal of retaining flexibility and the ability to compete.

To function effectively in a rapidly changing environment characterized by uncertainties and unpredictable surprises, management procedures should be responsive to environmental changes. As a consequence, management systems have become increasingly dependent on timely and relevant information. The move toward flexibility and the use of more dynamic management methods is supported by computer technology, decentralization, and participatory management.



Global competitiveness in a rapidly changing environment also requires more responsive regulatory systems. Old rules and methods, established by authoritative and bureaucratic institutions a few decades ago, may not be relevant in a globally interdependent economy.

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